

LEARNING LEADERS, INC.

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

JUNE 30, 2009

LEARNING LEADERS, INC.

TABLE OF CONTENTS

Independent Auditor's Report

Exhibit

A - Balance Sheet

B - Statement of Activities

C - Statement of Functional Expenses

D - Statement of Cash Flows

Notes to Financial Statements



Independent Auditor's Report

**Board of Trustees
Learning Leaders, Inc.**

We have audited the accompanying balance sheet of Learning Leaders, Inc. as of June 30, 2009, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Learning Leaders, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Learning Leaders, Inc.'s 2008 financial statements and, in our report dated December 4, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Learning Leaders, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Learning Leaders, Inc. as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Loeb & Troper LLP

January 5, 2010

LEARNING LEADERS, INC.

BALANCE SHEET

JUNE 30, 2009

(With Summarized Financial Information for June 30, 2008)

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 253,386	\$ 254,433
Investments (Note 3)	4,941,721	6,812,764
Contribution and grants receivables - due within one year	609,965	1,247,169
Prepaid expenses and security deposits	269,789	240,728
Fixed assets - net (Note 4)	<u>288,929</u>	<u>323,198</u>
Total assets	<u>\$ 6,363,790</u>	<u>\$ 8,878,292</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 68,433	\$ 67,883
Accrued payroll and vacations payable	71,067	69,973
Security deposit payable	22,867	22,867
Deferred rent payable (Note 7)	680,286	614,399
Advances		<u>4,400</u>
Total liabilities	<u>842,653</u>	<u>779,522</u>
Net assets (Exhibit B)		
Unrestricted	4,071,785	6,308,418
Temporarily restricted (Note 8)	212,439	553,439
Permanently restricted (Note 11)	<u>1,236,913</u>	<u>1,236,913</u>
Total net assets	<u>5,521,137</u>	<u>8,098,770</u>
Total liabilities and net assets	<u>\$ 6,363,790</u>	<u>\$ 8,878,292</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LEARNING LEADERS, INC.
STATEMENT OF ACTIVITIES

EXHIBIT B

YEAR ENDED JUNE 30, 2009
(With Summarized Financial Information
for the Year Ended June 30, 2008)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	2009	2009	2009	2008
Operating revenues and other support				
Contributions and grants	\$ 1,017,751	\$ 155,000		\$ 1,172,751
Board of Trustees contributions	137,110			137,110
Individual giving	284,316			284,316
Grants from New York City agencies	595,700			595,700
Donated services (Note 5)	132,984			132,984
Value of in-kind contributions (Note 6)	375,950			375,950
Special events	\$ 414,869			
Less direct costs of special events	(67,263)			
Interest and dividends	347,606			347,606
Other	160,429			160,429
Net assets released from restrictions (Note 8)	2,222	(496,000)		2,222
	496,000			
Total operating revenues and other support	3,550,068	(341,000)		3,209,068
Expenses (Exhibit C)				
Program services				
Core instructional program	2,105,948			2,105,948
Workshops	704,427			704,427
High Schools	262,673			262,673
Middle Schools	320,738			320,738
Literacy programs	559,097			559,097
Total program services	3,952,883			3,952,883
Supporting services				
Management and general	440,871			440,871
Fund raising	481,042			481,042
Total supporting services	921,913			921,913
Total expenses	4,874,796			4,874,796

-continued-

LEARNING LEADERS, INC.

EXHIBIT B

-2-

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2009
 (With Summarized Financial Information
 for the Year Ended June 30, 2008)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	2009	2009	2009	2008
Change in net assets from operations	\$ (1,324,728)	\$ (341,000)	\$	\$ (1,665,728)
Net realized and unrealized loss on investments	(911,905)	—	—	(911,905)
Change in net assets (Exhibit D)	(2,236,633)	(341,000)	—	(2,577,633)
Net assets - beginning of year	6,308,418	553,439	\$ 1,236,913	8,098,770
Net assets - end of year (Exhibit A)	\$ 4,071,785	\$ 212,439	\$ 1,236,913	\$ 5,521,137
	\$ 8,098,770	\$ 8,098,770	\$ 8,098,770	\$ 8,098,770

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2009

(With Summarized Financial Information
for the Year Ended June 30, 2008)

	Core		Program Services				Supporting Services			Total		
	Instructional Program	Workshops	Special Programs			Total	Management and General	Fund Raising	Special Events	Total	2009	2008
			High Schools	Middle School	Literacy Programs							
Salaries (Note 5)	\$ 1,108,875	\$ 399,549	\$ 158,567	\$ 193,556	\$ 298,521	\$ 2,159,068	\$ 247,194	\$ 241,260	\$ 488,454	\$ 2,647,522	\$ 2,630,481	
Payroll taxes and employee benefits	209,313	81,715	32,430	39,586	61,051	424,095	50,555	49,342	99,897	523,992	522,553	
Total salaries and related expenses	1,318,188	481,264	190,997	233,142	359,572	2,583,163	297,749	290,602	588,351	3,171,514	3,153,034	
Professional fees (Note 5)	54,000	21,082	8,366	10,212	15,751	109,411	60,600	12,729	73,329	182,740	173,621	
Consultants	62,827		200		26,787	89,814		8,310	8,310	98,124	5,415	
Supplies (Note 6)	199,424	19,226	7,630	9,314	48,604	284,198	11,894	39,098	50,992	335,190	82,746	
Occupancy	156,200	60,980	24,201	29,541	45,561	316,483	37,727	36,821	74,548	391,031	421,182	
Travel and meetings	33,064	126	414		6,026	39,630	2,119	3,501	5,620	45,250	52,136	
Telephone	13,567	5,296	2,102	2,566	3,957	27,488	3,277	3,197	6,474	33,962	50,337	
Postage and shipping	20,673	8,071	3,203	3,910	6,030	41,887	4,993	4,873	9,866	51,753	51,616	
Printing	37,694	44,418	795	1,825		84,732		39,962	39,962	124,694	167,371	
Equipment repairs, maintenance and minor purchases	23,057	9,002	3,573	4,361	6,725	46,718	5,569	5,433	11,002	57,720	67,512	
Computer expense	17,866	6,975	2,768	3,379	5,211	36,199	4,315	4,212	8,527	44,726	16,213	
Insurance	16,217	6,331	2,513	3,067	4,730	32,858	3,916	3,822	7,738	40,596	35,922	
Depreciation and amortization	14,316	5,589	2,218	2,707	4,176	29,006	3,458	3,375	6,833	35,839	36,128	
Advertising and marketing (Note 6)	80,517	31,433	12,475	15,227	23,485	163,137	3,355	19,780	23,135	186,272	95,067	
Catering and facility fees	43,476	1,565			189	45,230		3,474	70,737	115,967	215,758	
Miscellaneous	14,862	3,069	1,218	1,487	2,293	22,929	1,899	1,853	3,752	26,681	33,899	
Total expenses	2,105,948	704,427	262,673	320,738	559,097	3,952,883	440,871	481,042	67,263	989,176	4,942,059	4,657,957
Less expenses deducted directly from revenues on the statement of activities									(67,263)	(67,263)	(67,263)	(65,375)
Total expenses reported by function (Exhibit B)	\$ 2,105,948	\$ 704,427	\$ 262,673	\$ 320,738	\$ 559,097	\$ 3,952,883	\$ 440,871	\$ 481,042	\$ -	\$ 921,913	\$ 4,874,796	\$ 4,592,582

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LEARNING LEADERS, INC.

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ (2,577,633)	\$ (694,137)
Adjustments to reconcile change in net assets to cash used by operating activities		
Net realized and unrealized loss on investments	911,905	526,406
Depreciation and amortization	35,839	36,128
Decrease (increase) in assets		
Contributions and grants receivable	637,204	(361,496)
Prepaid expenses and security deposits	(29,061)	6,083
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	550	36,771
Accrued payroll and vacations payable	1,094	40,429
Security deposit payable		22,867
Deferred rent payable	65,887	76,765
Advances	(4,400)	(47,100)
Net cash used by operating activities	<u>(958,615)</u>	<u>(357,284)</u>
Cash flows from investing activities		
Fixed asset acquisitions	(1,570)	(24,645)
Proceeds from sale of investments	1,799,242	1,478,066
Purchase of investments	(840,104)	(1,163,301)
Net cash provided by investing activities	<u>957,568</u>	<u>290,120</u>
Net decrease in cash and cash equivalents	(1,047)	(67,164)
Cash and cash equivalents - beginning of year	<u>254,433</u>	<u>321,597</u>
Cash and cash equivalents - end of year	<u>\$ 253,386</u>	<u>\$ 254,433</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

LEARNING LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 1 - NATURE AND PURPOSE OF ORGANIZATION

Learning Leaders, Inc. ("LL") is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. LL was established as New York City School Volunteer Program, Inc. in 1956 and incorporated in the State of New York in 1970.

LL recruits and trains volunteers to help meet the educational needs of children in the New York City public schools. LL's professional staff of field-based coordinators provides training and support to the volunteers. LL's primary activity is the core instructional program, which delivers volunteer support to students from pre-kindergarten through high school. LL also supplies books, learning games and other materials to help volunteers and children work together. In addition to the core program, LL operates special volunteer projects designed to meet the special needs and interests of students in the New York City public schools. LL is supported primarily by contributions and grants.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Summarized financial information for 2008 - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

Reclassification - Certain 2008 balances have been reclassified to conform with the 2009 presentation.

Cash and cash equivalents - Cash and cash equivalents include certain investments in highly liquid instruments with original maturities when acquired of three months or less.

-continued-

LEARNING LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments - Investments are recorded at fair value, with the resulting gains or losses included in the statement of activities.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible, based on the markets' fluctuations, that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Contributions and grants receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Grants receivable from the City of New York are recorded when earned. Interest is not charged on outstanding receivables.

Allowance for doubtful accounts - Bad debt expense is charged if a receivable is determined to be uncollectible based on periodic review by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end.

Fixed assets - Fixed assets costing in excess of \$2,500 with estimated useful lives of more than one year are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from three to fifteen years. Leasehold improvements in excess of \$2,500 with estimated useful lives of more than one year are capitalized. Amortization is computed using the straight-line method over the lesser of the life of the lease or the estimated useful life.

Net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use by LL has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by LL in perpetuity.

-continued-

LEARNING LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted contributions received and expended in the same fiscal year are reflected as unrestricted revenues. If donor stipulations are met in the period received, such gifts are recorded as increases in unrestricted net assets.

Contract revenue - Revenues from city agencies are recognized at contracted rates for services provided, and they are subject to audit by the agencies. No provision has been provided for any adjustments, as management does not anticipate any material adjustments.

Donated services - Donated services are recognized as contributions if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by LL.

In-kind contributions - In-kind contributions are reported at fair value.

Rent expense - Rent is recorded on the straight-line basis over the term of the lease.

Advertising expense - LL expenses advertising costs as incurred.

Functional allocation of expenses - The costs of providing LL's programs have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services.

Change in net assets from operations - The financial statements of LL include change in net assets from operations as the performance indicator. Excluded from the performance indicator are net realized and unrealized losses from investments.

-continued-

LEARNING LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements* (FASB Statement No. 157), establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB Statement No. 157 are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that LL has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2009.

Cash and cash equivalents, equity securities - Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual fund - Valued at the net asset value (NAV) of shares held by LL at year end.

Limited liability corporations - There are no observable inputs and certain of the underlying investments are not publicly traded and there is no secondary market for such funds. The fund of funds is valued by the managers of the underlying funds at the NAV of shares held by LL at year end.

-continued-

LEARNING LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while LL believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of June 30, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 292,775	\$ -	\$ -	\$ 292,775
Equity securities	2,876,859	-	-	2,876,859
Mutual fund	1,762,990	-	-	1,762,990
Limited liability corporations	<u>-</u>	<u>-</u>	<u>9,097</u>	<u>9,097</u>
	<u>\$ 4,932,624</u>	<u>\$ -</u>	<u>\$ 9,097</u>	<u>\$ 4,941,721</u>

Level 3 gains and losses - The table below sets forth a summary of changes in the fair value of the Level 3 assets for the year ended June 30, 2009:

	<u>Limited Liability Corporations</u>
Balance, beginning of year	\$ 160,288
Unrealized losses relating to instruments still held at the reporting date	(32,103)
Purchases, sales, issuances and settlements (net)	(131,207)
Realized gains	<u>12,119</u>
Balance, end of year	<u>\$ 9,097</u>

-continued-

LEARNING LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements on a Nonrecurring Basis

As permitted by FSP 157-2, the fair value measurement disclosure was deferred for any (a) long-lived assets and finite-lived intangible assets in the determination of impairment under SFAS No. 142 or SFAS No. 144, (b) asset retirement obligations initially measured at fair value under SFAS No. 143, *Accounting for Asset Retirement Obligations*, and (c) nonfinancial liabilities for exit or disposal activities initially measured at fair value under SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*.

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of SFAS No. 115* (SFAS No. 159), permits but does not require measurement of financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. As LL did not elect to fair value any of the financial instruments under the provisions of SFAS No. 159, the adoption of this statement effective July 1, 2008 did not have an impact on the financial statements.

FASB Interpretation No. 48 - Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 (FIN 48)

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for nonpublic companies and not-for-profits for periods beginning after December 15, 2008.

As FIN 48 has not been adopted, LL is continuing to use FASB Statement No. 5, *Accounting for Contingencies* (FAS 5) to evaluate uncertain tax positions. LL is currently evaluating the impact on the financial statements of adopting FIN 48.

Subsequent events - Subsequent events have been evaluated through January 5, 2010, which is the date the financial statements were available to be issued.

-continued-

LEARNING LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 3 - INVESTMENTS

	<u>Fair Value</u>
Cash and cash equivalents	\$ 292,775
Equity securities	2,876,859
Mutual fund (bond fund)	1,762,990
Limited liability corporations	<u>9,097</u>
	<u>\$ 4,941,721</u>

NOTE 4 - FIXED ASSETS

		<u>Estimated Useful Lives</u>
Equipment	\$ 520,140	3-5 years
Leasehold improvements	<u>340,952</u>	15 years
	861,092	
Less accumulated depreciation and amortization	<u>(572,163)</u>	
	<u>\$ 288,929</u>	

NOTE 5 - DONATED SERVICES

LL received in-kind assistance of \$132,984, which has been reflected as revenues and expenses in the accompanying statement of activities. Included in the amount above is \$85,426 from the New York City Department of Education and \$47,558 of legal services received from a law firm where a board member is a partner.

NOTE 6 - VALUE OF IN-KIND CONTRIBUTIONS

LL received in-kind contributions of \$375,950 from several sources. These gifts are in the form of advertising, books and other materials.

-continued-

LEARNING LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 7 - LEASE COMMITMENT

Operating Lease

In August 2005, LL entered into a lease expiring on May 31, 2021.

Minimum lease payments for the next five years and thereafter are as follows:

2010	\$	457,140
2011		494,563
2012		509,290
2013		522,023
2014		535,073
Thereafter		<u>4,262,073</u>
	\$	<u>6,780,162</u>

Total rent for the year was \$464,859. \$127,855 received from a tenant sharing space is reflected as a reduction of rent expense. The net rent expense for the year was \$337,004.

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following:

Parent volunteer scholarship	\$	46,439
College planning		80,000
Periods after June 30, 2009		<u>86,000</u>
	\$	<u>212,439</u>

During 2009, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes or by the occurrence of other events specified by the donors:

Parent volunteer scholarship	\$	7,000
Strategic plan implementation		52,000
Lapse of time restrictions		<u>437,000</u>
	\$	<u>496,000</u>

-continued-

LEARNING LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 9 - PENSION PLAN

Effective January 1, 2004, Learning Leaders, Inc. established a 403(b) tax-deferred annuity plan for all employees. Pension expense for the year ended June 30, 2009 was \$75,207.

NOTE 10 - CONCENTRATIONS

Financial instruments which potentially subject LL to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. Management believes that the credit risk related to these accounts is minimal.

NOTE 11 - PERMANENTLY RESTRICTED NET ASSETS**General**

LL's permanently restricted net assets consist of endowment fund assets to be held in perpetuity. The income from the assets can be used to support LL's activities.

As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of LL has interpreted the Uniform Management of Institutional Funds Act (UMIFA) as being the relevant sections of the New York State Not-for-Profit Corporations Law (N-PCL) requiring preservation of the fair value of a gift as of the gift date of donor-restricted endowment funds (historic dollar value), absent explicit donor stipulations to the contrary. As a result, and in accordance with the direction of the original donor gift instrument, LL classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of any subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Any interest, dividends, rents, royalties or other revenue generated by donor-restricted endowment funds is used by the organization in a manner consistent with the standard of prudence required by law, absent explicit donor stipulations.

-continued-

LEARNING LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 11 - PERMANENTLY RESTRICTED NET ASSETS (continued)

Return Objectives, Strategies Employed and Spending Policy

The objectives of LL are: 1) to maintain the principal endowment funds at the original amount designated by the donor; 2) to provide a perpetual, annual, spendable return from investments; and 3) to protect the annual spendable return over time from the effects of inflation. The investment policy to achieve these objectives is to invest in a balanced portfolio of primarily equity and investment grade fixed-income securities. Investment income earned in relation to the endowment funds is recorded as unrestricted income, because it is being expended in the same period in which it is being earned.

Funds with Deficiencies

LL does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund as of June 30, 2009

Investments to be held in perpetuity total \$1,236,913. The income is expendable for educational purposes.

	<u>Permanently Restricted</u>
Endowment net assets, beginning of year	\$ <u>1,236,913</u>
Endowment net assets, end of year	\$ <u>1,236,913</u>